

# Mexico's Economy



Income per Capita: \$7,130 USD.

GDP: 1.134 Trillion USD (Purchase Power Parity)

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- Largest in Latin America
- 12<sup>th</sup> largest of the World
- 8<sup>th</sup> Largest exporter of the world
- 4<sup>th</sup> Largest producer of oil

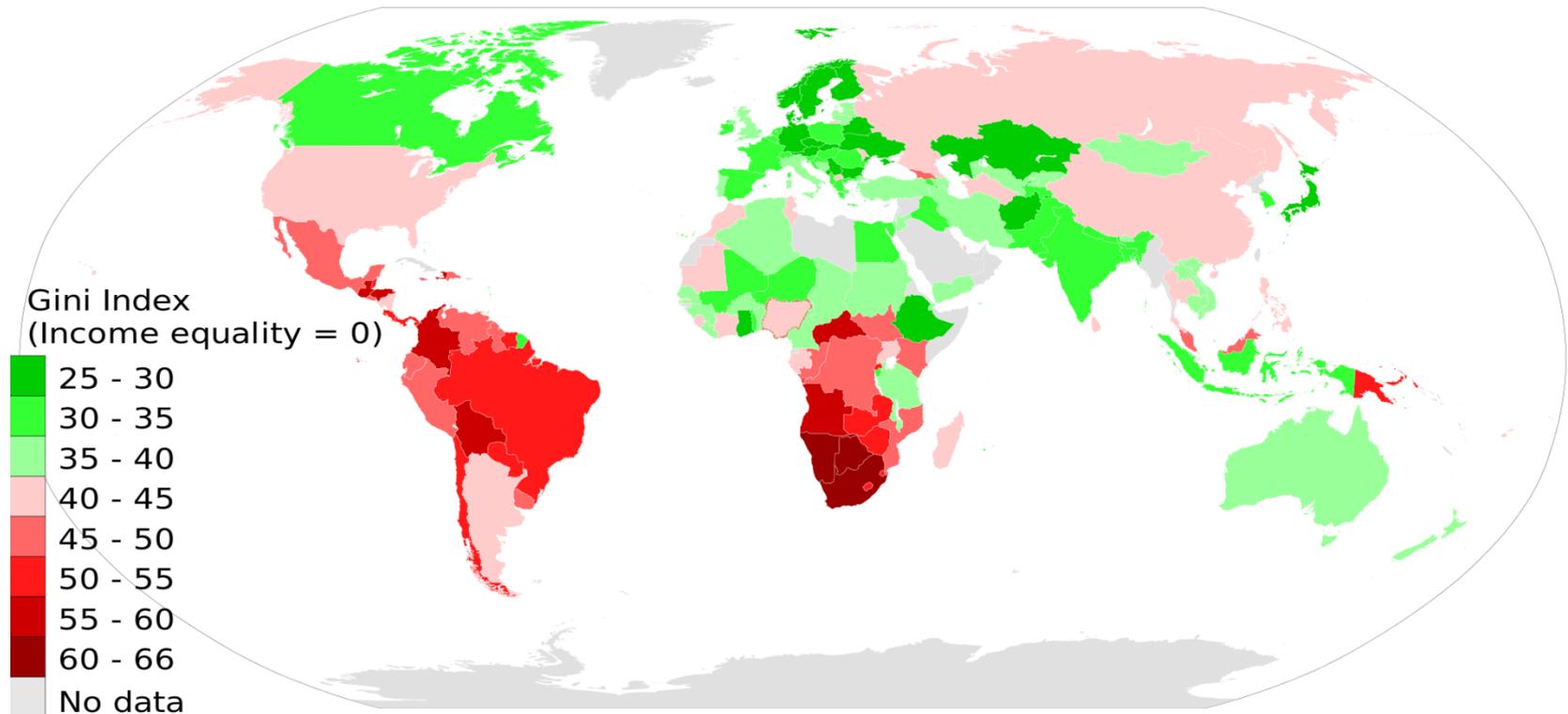
**Gini** Index: 49.5

Human Development Index: 82.1

Currency: Peso

# Gini Index

A measurement of the income distribution of a country's residents. This number, which ranges between 0 and 1 and is based on residents' net income, helps **define** the gap between the rich and the poor, with 0 representing perfect equality and 1 representing perfect inequality.



- Mexico has a **\$1.26 trillion economy**, and it is the 11<sup>th</sup> largest economy taking into account power purchasing parity. This makes Mexico a so-called “**middle power**”: falling just short of being a G7 economy.
- With its 122 million inhabitants, the **GDP per capita** currently stands at about **\$10,000**, placing it firmly in the “**upper middle income**” countries.
- Adjusted for purchasing power, the GDP per capita is about 60% higher, at roughly \$16,000. That puts it in the same league with countries like Turkey, Romania, and Brazil, but still far below countries like the U.S. (\$55,000) or Switzerland (\$58,000)

Mexico is traditionally seen as a **commodities and manufacturing giant**.

It has the largest proven silver reserves in the world, and the tenth largest oil reserves.

PEMEX, the state-owned oil company, is one of the largest oil producers in the world, with revenues of about **\$130 billion**.

The government of **Enrique Peña Nieto**, which came to power in December 2012, has been pressing ahead with what has been seen by many as an “ambitious reform agenda” that includes:

- an overhaul of the taxing system,
- cuts in government spending,
- the liberalization of economic sectors such as energy and telecommunications.

In Mexico, the right-of-center PAN party and centrist PRI party of President Enrique Peña Nieto have demonstrated a commitment to working together to push economic reforms through.

Unlike Brazil, a country in which exports account for just over a tenth of economic output, Mexico's economy is tied to exports and in particular to trade with the U.S. In Mexico, exports account for almost a third of GDP, and cross border trade with the U.S. totals more than a billion dollars every day.

There are 3 economic regions in Mexico. Each of these regions have different activities based on the physical geography and the climate of each area.



Northern Mexico



Central Mexico



Southern Mexico

# Northern Mexico

Geography & Climate: desert, rocky, dry, not good area for farming.

**Vaqueros**- Mexican Cowhands developed tools for herding, roping, and branding cattle.

**Maquiladoras**- factories that assemble parts made in other countries

More Mexicans have moved to this area, near the U.S.-Mexico border for jobs.

# Central Mexico

- More than half of Mexico's people live here.
- Over 18 million people live in Mexico City, one of the biggest cities in the world.
- The climate is mild and pleasant year-round.
- The soil is very fertile because of volcanic eruptions.
- Farming and Ranching are popular jobs.

# Southern Mexico

- This region is the poorest economic region.
- The Mexican economy is largely agricultural.
- Very few Mexicans own the land they farm, instead it is owned by rich landowners.
- **Haciendas**- large farms that raise a single crop for money.

# OECD

- Mexico became the first Latin American country to enter the **Organization for Economic Co-operation and Development (OECD)** in 1994.
- It was later joined by Chile. Colombia is in talks to join the OECD as well. The current president of the OECD is a Mexican, **Jose Angel Gurría**.
- Mexico is the OECD country with the **second highest degree of economic disparity** between the rich and the poor, behind Chile. The bottom 10% on the income rung disposes of 1.36% of the country's resources, whereas the upper 10% dispose of almost 36%.
- Twenty-six percent of GDP comes from the **informal economy**, in which almost 60% of the workforce is active.

# The Salina's Years: 1988-1994

Average growth: 0.0%    Inflation: 94.6%

The “**Pactos**” economy reforms on his **sexenio**.

Structural Reforms:

- Privatization
- Free trade

Renegotiation of external debt by the “Brady Plan” :

## **Brady Plan**

Mexican long term debt instruments, but with a US treasury guarantee. The net result was a limited discount of the total capital owed to banks and a drop in debt-services payments.

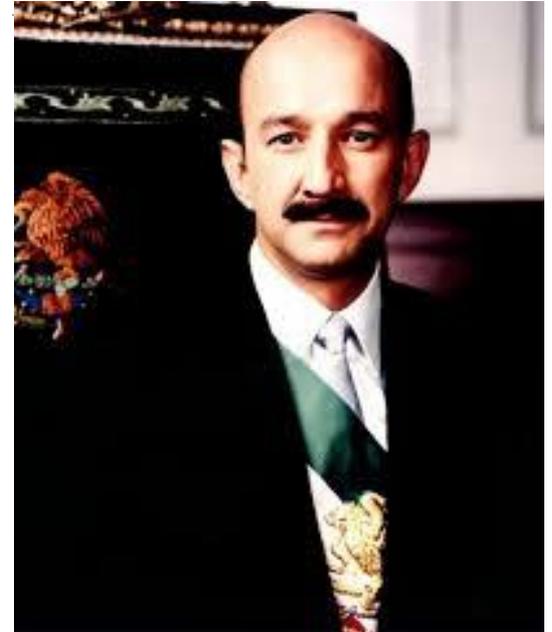
# Salinas Years: Results

Pactos were effective controlling inflation

- 1987: 159.2% vs 1994: 7.1%

GDP grew 3.3% in 1994

Exports were more than double those in 1987 reaching \$61 B



# NAFTA

- In 1994 Canada, Mexico, and the U.S. signed an agreement to end trade barriers.
- Mexico became United States' largest trade partner. It exports mostly manufactured goods, industrial goods, and automobiles. It has a **positive trade balance** with the United States, and has become one of the largest holders of U.S. treasury bonds.
- NAFTA has encouraged many U.S. companies to build factories in Mexico, because Mexicans will work for less money than Americans.

# What went wrong? 1994 Crisis

- A widening of the current account deficit that reached almost 8% of GDP
- Strong appreciation of the Real Exchange Rate
- Diminishing domestic savings rate (15% of GDP in 1994)
- While financing to the public sector was growing extremely fast (from 5% of GDP in 1987 to 45% in 1994)
- Political assassinations and uprising in Chiapas

# Zedillo's Years: 1994-2000

New stabilization plan

- Refinance short term debt
- Rescue the banking sector

Economic growth resumed in 1996 and was strong until 2000

Inflation lowered to historical levels

# Challenges going forward

Fiscal reform:

- Reduce fiscal evasion
- Reduce dependence on oil

Electric sector reform

Reduce dependence on US economy

Extremely unequal income distribution

Falling oil prices and a difficult global economic environment have put a damper on expectations for Mexico's economy. Mexico's peso fell by 13.1 percent during the course of 2014.



- Despite the positive forecasts, the Mexican economy faced a number of challenges in recent years.
- Growth was **under 2% in 2013, and under 3% in 2014.**
- The price of commodities, important for Mexico's income from exports, has been falling in what has been called "**the end of the commodity super cycle**".

- Mexico's economic freedom score is 66.4, making its economy the 59th freest in the 2015 Index.
- Its score has declined by 0.4 point since last year, with improvements in three of the 10 economic freedoms, including freedom from corruption and labor freedom, offset by declines in the management of government spending, fiscal freedom, and business freedom.
- Mexico is ranked 3rd out of three countries in the North America region, but its score is well above the world average.

In absolute terms, Mexico, more than any other country in Latin America, benefits from the strong dollar, through the remittances sent home by migrants living in the U.S.

In July for instance, Mexican migrants forwarded a record-breaking \$2.2 billion in cash transfers.

During the first seven months of 2015 these remittances totaled \$24.3 billion, up 6.2% from the same period last year.

A complicated global environment will continue to weigh on Mexico's economic growth prospects.

The Mexican authorities have already signaled their commitment to appropriate fiscal and monetary policy tightening aimed at maintaining macroeconomic stability.